

STUDENT LOAN DEDUCTIONS

Tolley® Guidance

September 2014

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Student Loan Deductions

Produced by Tolley in partnership with [Vince Ashall](#)

HMRC is responsible for the collection of SLDs (Student Loan Deductions) from April 2000 under the Education (Student Loans) (Repayment) Regulations 2009 [SI 2009/470](#) (subscription sensitive).

HMRC collect the amounts deducted by employers from their employees' pay on behalf of the Student Loans Company. Employers pay the amounts deducted over to HMRC together with their normal tax and NI payments. It is HMRC who notify an employer when to start or stop a SLD. Consequently, an employer has no, or minimal contact with the Student Loans Company.

An employer can thus only deal with enquiries from borrowers that concern the actual SLD calculation / deduction. The employer, and indeed HMRC, is not privy to the amount of the Student Loan nor to any balance of the loan outstanding.

SLD Notifications

Starting SLDs

A student loan borrower becomes liable to start repaying their student loan from the 6th April following completion of their course, or leaving their course. So an employer engaging someone who has recently left higher education in August / September would be notified by HMRC to commence SLDs from the following 6 April.

This notification to start the SLDs is via form SL1 (Student Loan Start Notice).

Deductions start from the first available pay date after the start date given on the SL1.

Repayment of student loans is expected to continue over a number of years and borrowers will probably change employers several times during this period. To ensure the continuity of SLDs, an employer may start the SLDs based on notifications other than the SL1.

When a new employee is engaged, a form P45 will be provided to the employee by the previous employer or, if not available for the first payday, new starter information will be provided by the employee. Where the employee was subject to SLDs in the previous employment, then the P45 will have Box 5 'Student Loan Deductions' completed with a 'Y'. This should be the case even if no SLD has actually been made (see 'Interaction with AEOs' below).

A borrower who is unable to provide a P45 before their first payday will need to provide new starter information, which includes information about any student loans. The student should be asked whether they have a student loan which is not fully repaid and whether they left a course of UK higher education before last 6 April and received the first student loan instalment on or after 1 September 1998. HMRC provide an optional new [starter checklist](#) which includes this question. If the employee answers 'yes' to the student loan question, SLDs should be made.

For the very few employers still outside the Real Time Information system, new starters without forms P45 have to supply the equivalent information on form P46.

Ceasing SLDs

HMRC will notify an employer when SLDs are to stop using form SL2 (Student Loan Stop Notice). An employer must stop making SLDs from the first available pay day on or after the date on the form.

Obviously a stop notice will be issued once a student loan has been fully repaid. To avoid overpayments of student loan repayments, a borrower within the final 23 months of the expected repayment period can elect to repay the outstanding balance by direct debit to the Student Loan Company rather than through the PAYE process. In this circumstance HMRC will issue a stop notice. Should the borrower default on the direct debit, then HMRC may issue a SL1 so that SLDs will recommence through the PAYE process.

SLDs should not be made from any payments made after an employee dies.

Deductions

Student loan deductions are made at the rate of 9% of earnings above a specified threshold. The 2014/15 threshold is £16,910 pa. Although expressed as an annual value, this is applied on a pro-rata basis according to the employee's earnings period. The corresponding weekly and monthly thresholds are £325.19 and £1,409.16.

The SLD is calculated on the same earnings that are used to determine the amount of Class 1 National Insurance that is due. When calculating the amount of SLD due, any pence are ignored.

See [Example 1](#).

The SLD is taken from net pay, ie after deduction of tax and NIC.

As with National Insurance, the SLD is calculated on a non-cumulative basis, ie the SLD is calculated on the insurable earnings in each pay period. This can give rise to situations where the employer correctly makes a deduction from earnings even though at tax year end the employee's earnings may be less than the annual threshold (see [Example 2](#)). If this occurs, the employer must not make any refund to the borrower. The borrower can, however, apply to the Student Loan Company for a refund at the end of the tax year.

Impact of salary sacrifice

Salary sacrifice is often used in conjunction with the provision of benefits in kind such as child care vouchers and employer pension contributions. See the [Salary sacrifice arrangements - overview](#) guidance note. As a successful salary sacrifice arrangement reduces the amount of an employee's insurable pay, the amount of earnings on which the SLD will be calculated is reduced by a corresponding amount.

See [Example 3](#).

Impact of non-cash benefits

The provision of non-cash benefits will normally not have any impact on student loan deductions. This is because the majority of non-cash benefits are not subject to Class 1 NIC. Benefits in kind (BIKs) are usually subject only to Class 1A NICs, which is an employer-only charge (see the [Class 1 v Class 1A](#) guidance note).

However, some BIKs, such as non-cash vouchers, are subject to Class 1 NIC (chargeable on the employee and employer). In order to collect the employee's NIC due, the earnings subject to NIC have to be increased by the value of the BIK that will increase the amount on

which the SLD is calculated. This increase in the insurable earnings is applied in the same tax period in which the BIK is provided.

See [Example 4](#).

Incorrect student loan deductions made

For various reasons, an employer may make an incorrect SLD resulting in an under-deduction or over-deduction of the student loan. This may arise for the following reasons:

- a start Notice is applied to the wrong employee
- SLDs are made after a Stop Notice has been received
- previous employer erroneously completed Box 5 on the P45 with a 'Y'
- Employee mistakenly answered 'Yes' to student loan question when giving new starter information
- HMRC issued Start Notice in respect of the wrong borrower

Where an error has been made, the action to be taken by the employer depends on when the error is discovered.

Error made in current tax year

In the case of over-deductions, the amount deducted in error should be refunded to the borrower.

In the case of under-deductions, recovery can be made from subsequent payments in that tax year. Note that the recoverable amount is limited to a maximum amount equal to the normal SLD due in that pay period.

See [Example 5](#).

Error made in previous tax year

For an under-deduction, the employer need take no further action. Should the borrower make an enquiry then they should be advised to notify the Student Loan Company. The under-deduction will be covered by future deductions. In effect the repayment period will be extended.

For an over-deduction, the over-deduction can be refunded to the employee.

Where the RTI year-end filing deadline (19 April) has not yet passed, a further FPS should be submitted to reflect the correct amount deducted over the year. Where the error is discovered after 19 April, an EYU (Earlier Year Update) should be submitted to record the difference between what the SLD year to date value should be and what was originally notified to HMRC. See the [Real time information](#) guidance note.

Interaction with AEOs

Where an Attachment of Earnings Order (AEO) is in force at the same time as a Student Loan, then this affects whether a SLD can be made.

Dealing with the simplest aspects of this first:

- an SLD takes priority over a non-priority AEO

- no SLD can be made where a Council Tax AEO (CTAEO) is in operation

With regards to the second bullet point above, if an SLD is in operation and a CTAEO is received, it is recommended payroll practice that the SLD marker is not cancelled. Similarly if a CTAEO is in operation and a SL1 is received, then the SLD should be set up on the payroll system. Payroll software should recognise that no SLD can be made until the CTAEO has run its course.

Doing this should ensure that, should the employee leave before the CTAEO has finished, Box 5 on the P45 will be completed with 'Y', even though no SLDs have been made.

If the SLD is cancelled / not set up, then chances are that once the CTAEO has finished then the SLD will have been forgotten and no SLD will be made when it should be.

Where a priority order AEO is in force, the AEO deduction and the SLD should be calculated as normal. However, whether the full amount of the SLD can be actually taken is dependent on the level of protected earnings specified under the AEO. The combined AEO deduction and SLD cannot reduce the employee's available earnings below the specified protected earnings value.

See [Example 6](#).

The above applies to AEOs in England, Wales and Northern Ireland.

If a Scottish Court Order (Earnings Arrestment, Current Maintenance Arrestment or Conjoined Arrestment Order) is in operation then no SLD should be made.

If a Deduction from Earnings Order (DEO) is in operation, an SLD can be made subject to the protected earnings level not being breached (see [Example 6](#)). If a Scottish court order and a DEO are in operation concurrently, no SLD should be made.

Interaction with RTI

There are no special conditions attaching to SLDs under RTI. SLDs are treated in the same manner as the other statutory deductions (tax and NICs). Thus SLDs are reported on the FPS on a pay period basis and a year to date basis, and the 'Has student loan' indicator will need to be set. The SLD also needs to be taken into account in determining the 'pay after statutory deductions' value.

These examples relate to the Student Loan Deductions guidance note above.

Example 1 - basic calculation

Kathleen is on an annual salary of £24,000, paid calendar monthly.

Monthly salary	£2,000.00
Less threshold	<u>£1,409.16</u>
Excess over threshold	£590.84

Student Loan deduction due: $9\% \times 590.84 = £53.17$

Actual deduction from salary £53.00

Example 2 - SLD in non-standard month

Peter is on an annual salary of £16,500, paid calendar monthly; as this is below the annual and corresponding monthly thresholds, no SLD would normally be due. In December he receives a Christmas bonus of £400.

Monthly salary	£1,375.00
Bonus	<u>£400.00</u>
Earnings subject to NI	£1,775.00
Less threshold	<u>£1409.16</u>
Excess over threshold	£365.84

Student loan deduction due: $9\% \times 365.84 = £32.92$

Actual deduction from salary £32.00

Annual earnings subject to NICs: £16,900 (16,500 + 400)

Although Peter's annual earnings (£16,900) are below the £16,910 annual threshold, the £32 SLD in December has been correctly made and the employer must not make any refund. Peter can, however, apply to the Student Loan Company for a refund at the end of the tax year.

Example 3 - salary sacrifice in operation

Colin is on an annual salary of £24,000, paid calendar monthly; he has entered into a salary sacrifice agreement whereby he foregoes £2,000 of annual salary in return for employer pension contributions to the same value.

Monthly salary	£2,000.00
Less salary sacrifice	<u>£166.67</u>
Earnings subject to NI	£1,833.33
Less threshold	<u>£1,409.16</u>
Excess over threshold	£ 424.17

Student loan deduction due: $9\% \times 424.17 = £38.17$

Actual deduction from salary £38.00

Example 4 - treatment of non-cash vouchers

Mary is on an annual salary of £20,000, paid calendar monthly; in September she receives non-cash vouchers to the value of £200. Non-cash vouchers are subject to Class 1 NICs.

Monthly salary	£1,666.67
Plus voucher value	<u>£200.00</u>
Earnings subject to NI	£1,866.67
Less threshold	<u>£1,409.16</u>
Excess over threshold	£457.51

Student loan deduction due: $9\% \times 457.51 = £41.17$

Actual deduction from salary £41.00

Example 5 - error in SLDs

Laura is paid £400 per week; this results in a normal SLD of £6.00 per week. Her employer discovers that (for whatever reason) he has not been making the correct SLD in previous weeks, resulting in a total under-deduction of £30.00.

As the normal weekly deduction is £6.00, the maximum that can be recovered in each pay period in respect of the error is £6.00 resulting in a total weekly deduction of £12.00. This weekly recoverable amount may fluctuate if Laura's earnings vary.

This means that when she works additional hours one week resulting in a weekly wage of £475.00, then a SLD of £26.00 could be made ie £13 SLD due on £475.00 plus £13.00 in respect of the arrears.

Example 6 - Attachment of Earnings Orders

Kathleen, in example 1 above, is subject to a priority order AEO of £550 per month, with a protected earnings level of £850 per month. The normal SLD is £53 per month.

Monthly salary	£2,000.00
Less tax and NI	<u>£562.48</u>
Attachable earnings	£1,437.52
Less AEO	<u>£550.00</u>
	£887.52

Deducting the normal £53.00 SLD would reduce her pay to £834.52 ($887.52 - 53.000$) which is below the protected earnings level. Therefore the SLD is restricted to £37.00.